

Minneapolis Community Development Agency

Request for City Council Action

Date: September 16, 2003

To: Council Member Lisa Goodman, Community Development Committee

Prepared by Bob Lind, Manager, Business Finance Division, Phone 612-673-5068

Approved by Lee Sheehy, CPED Executive Director
Chuck Lutz, CPED Deputy Executive Director _____

Subject: A Public Hearing and Request for Preliminary Approval of up to \$85,000,000 in 501(c)(3) Tax-exempt Health Care Revenue Bonds as a Joint Issue with the City of Saint Paul HRA and the City of Minneapolis for the Group Health Plan, Inc. Project (HealthPartners, Inc.)

Previous Directives: In 1992 the cities of St. Paul and Minneapolis jointly issued \$55 million in Tax-exempt 501(c)(3) Revenue Bonds for various Group Health Plan, Inc. projects in eighteen cities. At this time HealthPartners is requesting up to \$85 million to refund the 1992 bonds and to finance the rehab costs for medical facilities and equipment located in nine cities.

Wards: 2 and 10.

Neighborhood Group Notification: The following neighborhood groups were notified on August 25, 2003: Calhoun Area Residents Action Group (CARAG), Prospect Park/East River Road Improvement Association and the West Bank Community Coalition.

Consistency with *Building a City That Works*: The proposed project is consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: The existing Minneapolis facilities are in compliance with the Minneapolis Plan.

Zoning Code Compliance: The existing facilities are in compliance.

Impact on the MCDA Budget:

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

X Other financial impact (Explain): The issuance of tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Living Wage/Business Subsidy: The proposed project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: Does not apply to revenue bond financing. CPED staff will be working with HealthPartners, Inc. on a job linkage agreement.

Affirmative Action Compliance: HealthPartners will complete its Affirmative Action Plan prior to the bond closing.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council adopt the attached Resolution following a Public Hearing held on September 16, 2003, notice of which was published in Finance and Commerce on August 30, 2003, giving Preliminary Approval to the issuance of up to \$85,000,000 in 501(c)(3) Tax-exempt Health Care Revenue Bonds as a joint issue with the City of Saint Paul HRA and the City of Minneapolis for the Group Health Plan, Inc. Project (HealthPartners, Inc.)

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

In 1992 the City of Minneapolis and the St. Paul HRA jointly issued \$55 million in Tax-exempt 501(c)(3) Revenue Bonds for Group Health, Inc. to finance a number of facilities and improvements located in a variety of metro cities. HealthPartners was formed in 1992 with the merger of Group Health and MedCenters Health Plan. HealthPartners is headquartered in Bloomington, with over 9,700 employees throughout their system and serving over 660,000 members. At this time, HealthPartners, Inc. (Group Health, Inc.) is requesting that the 1992 Bonds be refinanced, with a current outstanding balance of \$46.7 million. In addition to refinancing the 1992 Bonds, HealthPartners would also like to finance new money projects at various HealthPartners sites in an amount up to \$30 million. The \$30 million would be used to finance and reimburse for capital improvements and equipment at the various medical clinics. The various HealthPartners facilities are located in nine cities: Anoka, Bloomington, Brooklyn Center, Eden Prairie, Maplewood, Mendota Heights, Roseville, St. Paul and Minneapolis.

The Minneapolis medical clinics are located at:

2220 Riverside Avenue South - Ward 2 Cedar-Riverside West Bank
2701 University Avenue Southeast - Ward 2 Prospect Park East River Road
3001 Hennepin Avenue - Ward 10 CARAG

TYPE OF FINANCING:

The total financing is expected to be up to \$85 million, to be jointly issued by the City of Minneapolis and the St. Paul HRA. The refinancing portion of the 2003 Bonds will be amortized over the remaining term of 19 years (2022), with the new money 2003 Bonds amortized over a 30 year term (2033). The Bonds will carry a HealthPartners bond rating of BBB+ by Standard & Poor's.

Sources:

Revenue Bonds	\$ 85,000,000
Equity	17,400,000
	<u>\$102,400,000</u>

Uses:

Refinancing of the 1992 Bonds	\$ 47,000,000
Renovation Costs and Equipment	45,000,000
Debt Service Reserve	8,500,000
Professional & Issuance Costs	1,900,000
	<u>\$102,400,000</u>

ASSESSOR'S ESTIMATED
ANNUAL TAX INCREASE:

Tax-exempt facilities.

AFFIRMATIVE ACTION COMPLIANCE:

Affirmative Action Plan will be on file with the City prior to bond closing.

MCDA IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.
HealthPartners: N.A.

Property Improvements

No more than 25% of the bond proceeds may be used for land and acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures.
HealthPartners: In compliance.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.
HealthPartners: In compliance.

Equipment Financing

Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture.
HealthPartners: In compliance. Various pieces of medical equipment are being purchased, the majority of which are considered fixtures.

Restaurant/Bank	IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities. <u>HealthPartners:</u> N.A.
Tax-exempt Institution	Refinancing is permitted when new jobs are created or when a significant number of jobs is preserved; any interest cost savings must directly reduce patient costs. <u>HealthPartners:</u> The refinancing of the 1992 Bonds will result in cost savings that are being used to finance the renovation costs at the Minneapolis facilities preserving the services and jobs provided to Minneapolis residents.
<u>IRB CAP:</u>	The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.
<u>BOND COUNSEL:</u>	Briggs & Morgan
<u>UNDERWRITERS:</u>	U.S. Bancorp Piper Jaffray Inc. Wells Fargo Brokerage Services, LLC

Giving preliminary approval to a project on behalf of Group Health, Inc. and authorizing the issuance of health care revenue bonds of the City of Minneapolis therefor under Minnesota Statutes, Sections 469.152 through 469.1651, as amended; referring the proposed project to the Minnesota Department of Employment and Economic Development for approval; and authorizing the preparation of necessary documents.

WHEREAS, pursuant to Minnesota Statutes, Sections 469.152 through 469.1651, as amended (the "Act"), the City of Minneapolis (the "City") acting jointly with the Housing and Redevelopment Authority of the City of Saint Paul (the "HRA"), is authorized to issue revenue bonds for the purpose of financing real and personal property, whether or not now in existence, which property is used or useful in connection with a revenue producing enterprise, whether or not operated for profit, for providing health care services, and to refund revenue bonds issued by other municipalities or redevelopment agencies in the State of Minnesota issued to finance the same; and

WHEREAS, in enacting the Act, the Legislature found that the welfare of the State of Minnesota requires the active promotion, attraction, encouragement and development of economically sound industry and commerce to prevent, as far as possible, the emergence of blight and areas of chronic unemployment and to prevent economic deterioration; and the welfare of the state requires the provision of necessary medical and health care facilities to the end that adequate health care services be available at reasonable costs; and

WHEREAS, other factors necessitating such active promotion and development of medical and health care facilities within the City and surrounding area are the increasing concentration of population in the metropolitan area, the steady and rapid increase in the cost of health care services required to meet the needs of the population; and

WHEREAS, acting on the basis of the common powers of the HRA and the City conferred by the Act, Group Health, Inc., a nonprofit corporation (the "Company") has proposed that the HRA and the City (the "Joint Issuers") jointly issue health care revenue bonds in the approximate principal amount of \$85,000,000 (the "Revenue Bonds") to refund the Joint Issuers' outstanding Health Care Facility Revenue Bonds, Series 1992 (the "Series 1992 Bonds") and finance or refinance various capital expenditures made by the Company at facilities located in various municipalities in the State of Minnesota (collectively the "Project"); and

WHEREAS, the City did pursuant to Minnesota Statutes, Section 469.154, subdivision 4, published a notice, a copy of which with proof of publication is on file in the office of the City Clerk, of the public hearing on the proposal of the Company that the City and HRA jointly finance a project and the City (through the Community Development Committee of the City Council) did conduct a public hearing pursuant to said notice on September 16, 2003, at 1:30 p.m. at which hearing all persons who appeared were given an opportunity to express their views with respect to the proposal which notice, publication and hearing are hereby in all respects approved; and

WHEREAS, the proposal calls for the proceeds realized upon the sale of the Revenue Bonds to be loan to the Company under a revenue agreement wherein the Company will be obligated to make payments under the revenue agreement at the times and in the amounts sufficient to provide for the prompt payment of principal of, premium, if any, and interest on the Bonds and all costs and expenses of the City and HRA incident to the issuance and sale of the Revenue Bonds; and

WHEREAS, the HRA and City have been advised by representatives of the Company that the refunding of the tax exempt bonds previously issued by the issuance of the Revenue Bonds will result in substantial savings in the Company's capital costs; and

WHEREAS, the undertaking of the proposed Project and the issuance of the Revenue Bonds to finance the cost thereof will further promote the public purposes and legislative objectives of the Act by the continuation of the health care operations of the Company in the Cities of Minneapolis, St. Paul and seven (7) other municipalities in the Minneapolis St. Paul Metropolitan area; and

WHEREAS, neither the full faith and credit of the City, the HRA nor the City of St. Paul will be pledged to the Project or for the payment of the principal of, premium, if any, and interest on the Bonds; and

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

That the undertaking of the Project and the issuance by the City and HRA, jointly, of the Revenue Bonds pursuant to the Act, in an approximate aggregate principal amount of \$85,000,000 to finance the costs thereof, all as referred to above, is hereby authorized and approved by the City, subject to the approval of the Project by the Minnesota Department of Employment and Economic Development ("DEED") under the Act, and to the agreement of the City, the HRA, the Company and the purchaser or purchasers of the Revenue Bonds on the terms and conditions on which the Revenue Bonds will be issued, sold and secured.

BE IT FURTHER RESOLVED, that on the basis of information provided to this Council, it appears, and the Council hereby finds, that the Project constitutes properties, real and personal, used or useful in connection with one or more revenue producing enterprises engaged in providing health care within the meaning of Subdivision 2 of Section 469.152 of the Act; that the Project furthers the purposes stated in Section 469.152; that the availability of financing under the Act and willingness of the City and HRA to jointly furnish such financing will be a substantial inducement to Company to undertake the Project, and that the effect of the Project, if undertaken, will be to assist in providing adequate health care services to residents of the City at a reasonable cost.

BE IT FURTHER RESOLVED, that in accordance with Subdivision 3 of Section 469.154 of the Act, the Mayor is hereby authorized and directed to submit the proposal for the Project to DEED requesting its approval, and the other officers, employees and agents of the City are hereby authorized to provide DEED with such preliminary information as it may require.

BE IT FURTHER RESOLVED, that Company has agreed and it is hereby determined that any and all costs incurred by the City or the HRA in connection with the financing of the Project whether or not the Project is carried to completion and whether or not approved by DEED will be paid by Company.

BE IT FURTHER RESOLVED, Briggs and Morgan, Professional Association, acting as bond counsel, is authorized to assist in the preparation and review of necessary documents relating to the Project, to consult with the City Attorney and Company as to the maturities, interest rates and other terms and provisions of the Bonds and as to the covenants and other provisions of the necessary documents and to submit such documents to the Council for final approval.

BE IT FURTHER RESOLVED that nothing in this resolution or in the documents prepared pursuant hereto shall authorize the expenditure of any municipal funds on the Project other than the revenues derived from the Project or otherwise granted to the City or the HRA for this purpose. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property or funds of the City or the HRA except the revenue and proceeds pledged to the payment thereof, nor shall the City or the HRA be subject to any liability thereon. The holders of the Bonds shall never have the right to compel any exercise of the taxing power of the City or the HRA to pay the outstanding principal on the Bonds or the interest thereon, or to enforce payment thereof against any property of the City or the HRA. The Bonds shall recite in substance that the Bonds, including interest thereon, are payable solely from the revenue and proceeds pledged to the payment thereof. The Bonds shall not constitute a debt of the City or the HRA within the meaning of any constitutional or statutory limitation.

BE IT FURTHER RESOLVED, that the actions of the City and Minneapolis Department of CPED staff in causing public notice of the public hearing and in describing the general nature of the Project and estimating the principal amount of the Bonds to be issued to finance the Project and in preparing a draft of the proposed application to DEED for approval of the Project, which has been available for inspection by the public in the office of the Minneapolis Department of CPED from and after the publication of notice of the hearing, are in all respects ratified and confirmed.

BE IT FURTHER RESOLVED, that the adoption of this resolution by the City does not constitute a guarantee or a firm commitment that the City will issue the Bonds as requested by the Company. The City reserves the right, in its sole discretion, to withdraw from participation and accordingly not issue any Bonds to finance the Project at any time prior to the adoption of the resolution authorizing the issuance of such Bonds should the City so determine.